

BUDGET DIGEST: CBO BUDGET AND ECONOMIC OUTLOOK

The Congressional Budget and Impoundment Control Act of 1974 (Budget Act) requires, on an annual basis, the Congressional Budget Office (CBO) to provide the House and Senate Budget Committees with budget and economic projections for the next 10 years. Formally titled the *Budget and Economic Outlook*, CBO's annual report, which was released yesterday, is commonly referred to as the "baseline."

What is the CBO baseline and how is it used? The *Budget and Economic Outlook* is a 10-year, forward-looking projection of federal spending, revenue, deficits, and debt assuming current laws and policies generally remain unchanged. It contains a forecast of key economic indicators such as changes in gross domestic product (GDP), inflation, interest rates, and unemployment, and provides detailed budget estimates for individual programs. CBO's last projection was released in August 2019.

What are this year's baseline's key conclusions?

CBO's projections are sobering. The baseline projects deficits will eclipse \$1 trillion in fiscal year (FY) 2020 — the first time since FY 2012 — and dramatically rise to \$1.742 trillion by FY 2030, if current laws remain unchanged. During the 10-year period, federal debt held by the public will surge from 81 percent to 98 percent of GDP — the highest debt level since just after World War II and more than twice the average level of the past 50 years. ***The growth of direct, or mandatory, spending and interest on the debt are the major causes of growing deficits.*** According to CBO, federal spending will consume an ever-expanding share of economic resources, rising from 21.0 percent of GDP in FY 2020 to 23.4 percent in FY 2030 — far exceeding the annual average of the past 50 years of 20.4 percent. The baseline also projects strong revenue growth — federal revenues are estimated to be \$3.6 trillion in FY 2020, an increase of \$170 billion compared to last year, and will reach \$5.7 trillion by FY 2030. Out-of-control federal spending, not revenue, is clearly the biggest fiscal challenge the nation faces.

How should Congress respond? Earlier today, the House Committee on the Budget held a hearing with CBO Director Phillip Swagel to review the findings of the most recent *Outlook*. The hearing confirmed that the projected deficits and debt are unsustainable, and that the nation is heading toward a fiscal crisis. About the looming fiscal crisis, even Democrats acknowledged that mandatory spending is the biggest driver of our current deficit. It is critical for Congress to pass a budget resolution that outlines a long-term, fiscally sustainable path that addresses the underlying problem of our growing deficits and debt — mandatory spending.

